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The Conference Board

Worldbusiness Perspectives No. 64
December 1981

FOREIGN CAPITAL EXPENDITURES BY AMERICAN COMPANIES: Slowdown in 1982

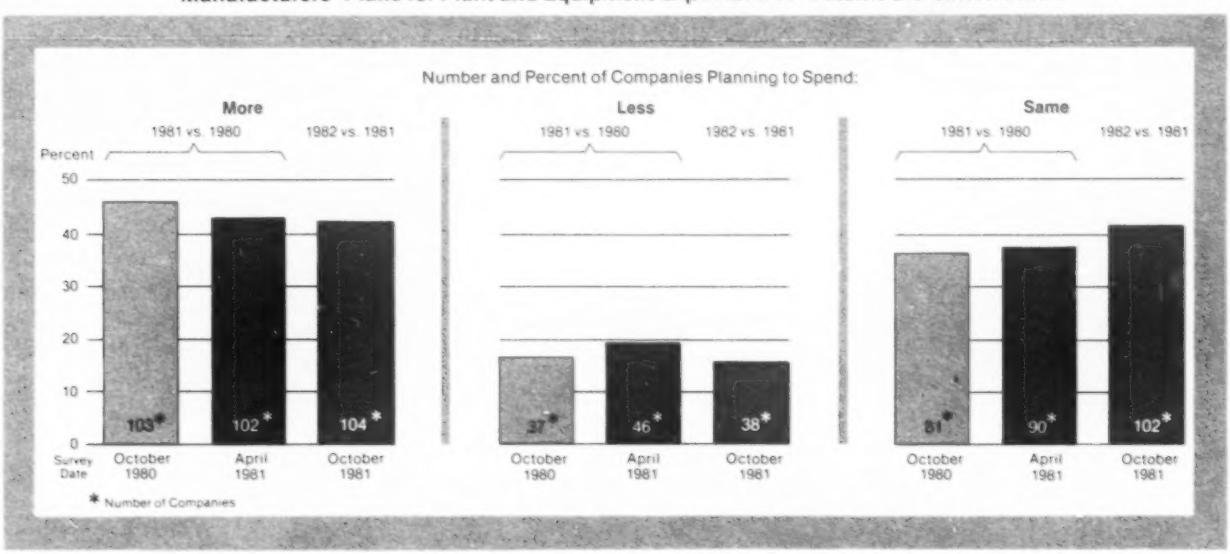
Capital expenditures abroad by American manufacturers will advance only modestly in 1982. Of the companies responding to the latest (October, 1981) survey by The Conference Board, only 43 percent replied that they expected to spend more in the coming year than they did in 1981. This survey is the first in which manufacturers were queried by The Conference Board about their plans for 1982. Since the responses were made three months prior to the beginning of the calendar year, there is time for a revision of such plans. The combination of declining economic activity abroad and high interest rates had evidently made American manufacturers somewhat more cautious in their plans.

There is clearly no withdrawal from investment abroad. As a matter of fact a sizable drop took place in those who intended to spend less in 1982 than in 1981. At the same time, a sharp rise took place in those who expected to spend about the same amount in the two years. It may turn out, consequently, that 1982 will be a year of transition, particularly if business conditions start to rise abroad in time for capital expenditure plans to be revised before the year's end.

The survey conducted by The Conference Board is aimed only at comparing current intentions with past levels on a company-by-company basis without seeking actual dollar magnitudes. It is impossible, consequently, to neatly translate the responses into dollar totals. An earlier survey by the Department of Commerce, taken in June, 1981, appears, however, to support the more recent one by The Conference Board. The Commerce Department reported that manufacturers expected that their 1982 expenditures would be approximately 7 percent above those made in 1981. This represents a considerable slowdown from the record of the previous two years in that 1981 showed a 20 percent increase over 1980. All of these figures are in current dollars and, therefore, reflect the continuing worldwide inflation.

J. Frank Gaston

Manufacturers' Plans for Plant and Equipment Expenditures Outside the United States



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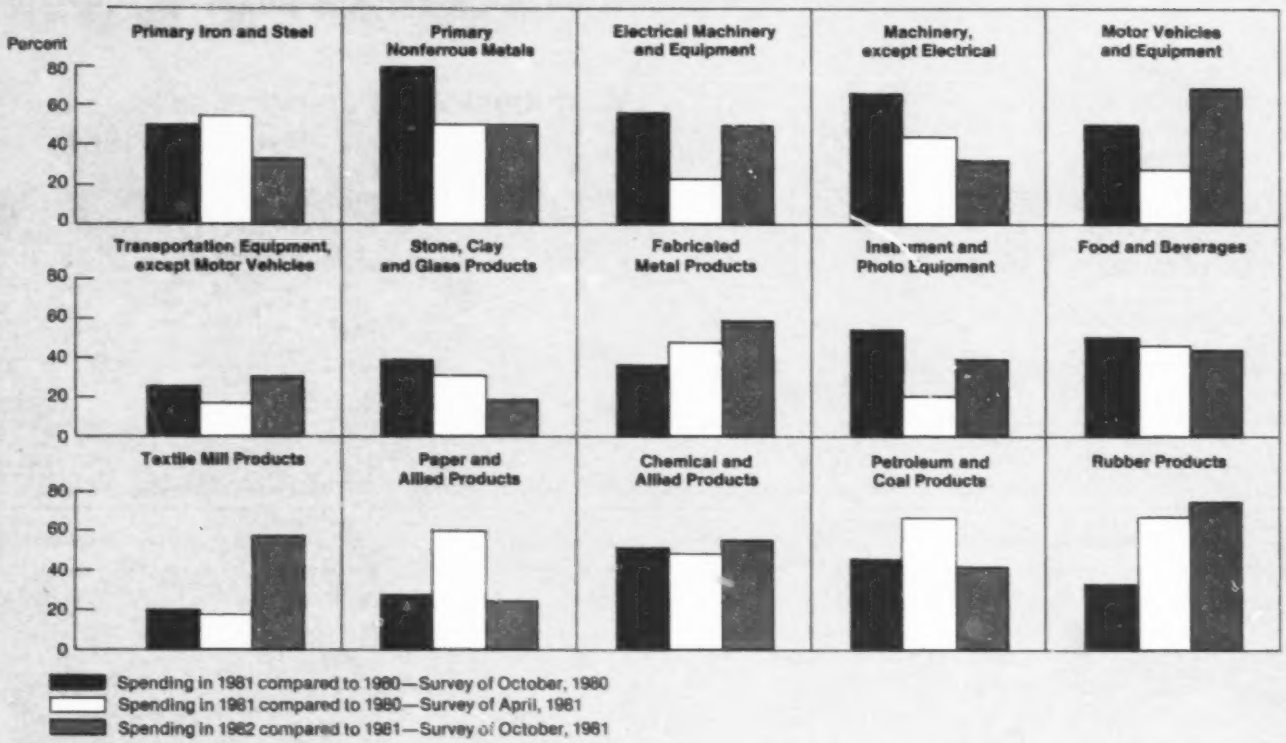
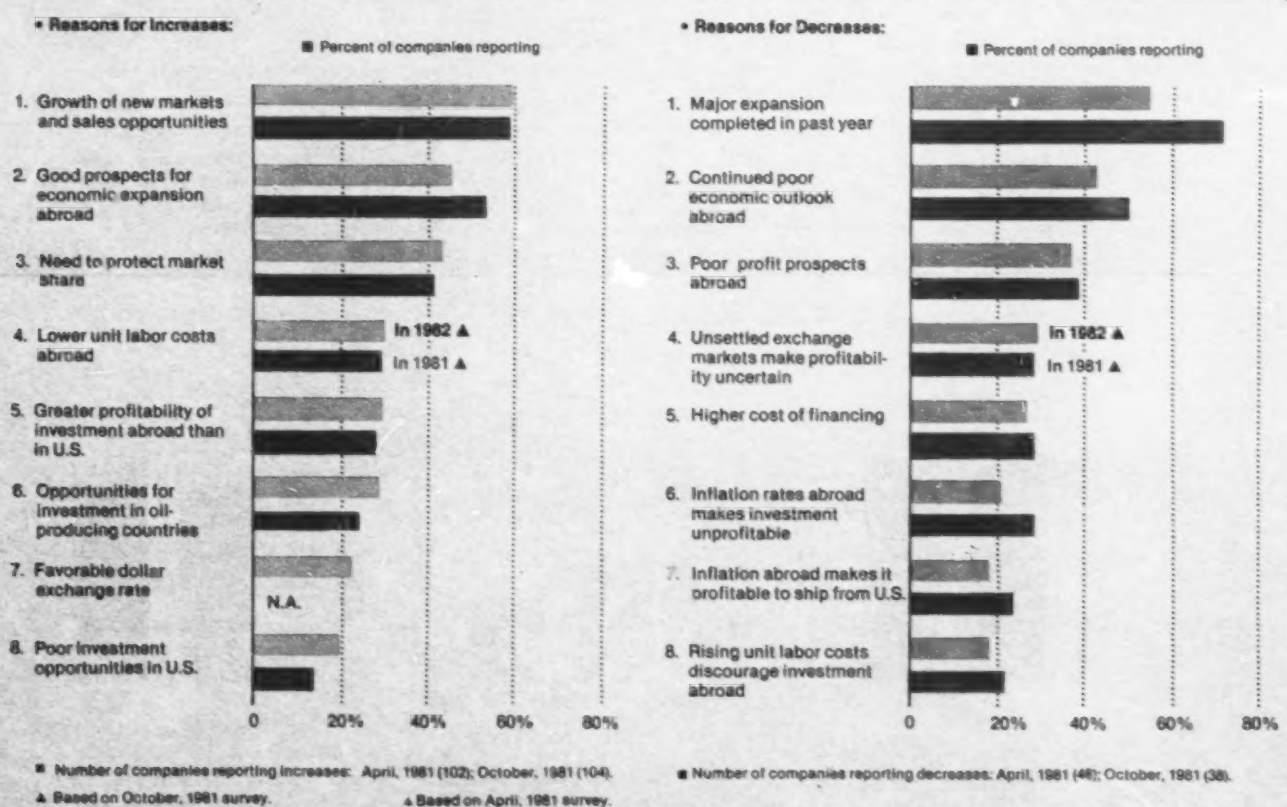
Spending Plans for Plant and Equipment Outside the United States by Industry

Percent of Companies Planning to Spend More



Reasons for Plant and Equipment Expenditures Outside the United States—All Manufacturing


• Reasons for Increases:
Percent of companies reporting
1. Growth of new markets and sales opportunities
2. Good prospects for economic expansion abroad
3. Need to protect market share
4. Lower unit labor costs abroad
In 1982 ▲
In 1981 ▲
5. Greater profitability of investment abroad than in U.S.
6. Opportunities for investment in oil-producing countries
7. Favorable dollar exchange rate
N.A.
8. Poor investment opportunities in U.S.
0
20%
40%
60%
80%
• Reasons for Decreases:
Percent of companies reporting
1. Major expansion completed in past year
2. Continued poor economic outlook abroad
3. Poor profit prospects abroad
4. Unsettled exchange markets make profitability uncertain
In 1982 ▲
In 1981 ▲
5. Higher cost of financing
6. Inflation rates abroad makes investment unprofitable
7. Inflation abroad makes it profitable to ship from U.S.
8. Rising unit labor costs discourage investment abroad
0
20%
40%
60%
80%

■ Number of companies reporting increases: April, 1981 (102); October, 1981 (104).

▲ Based on October, 1981 survey.

▵ Based on April, 1981 survey.

■ Number of companies reporting decreases: April, 1981 (46); October, 1981 (38).

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The Conference Board

Worldbusiness Perspectives No. 65
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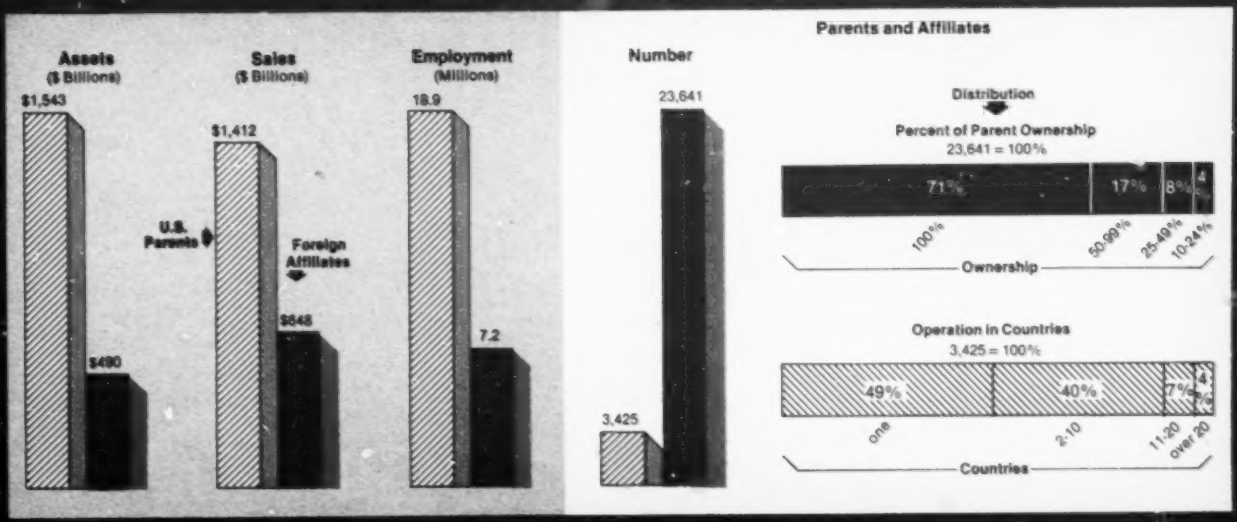
MULTINATIONAL COMPANIES: Some New Dimensions

Fifty U.S. manufacturing companies derived more than 50 percent of their revenues from outside the United States in 1980. This compares with the 39 companies achieving this percentage of foreign sales in 1978 (WBP No. 57, October, 1980). The list presented on the next page includes 3 companies that were not on the earlier list; on the other hand, 13 companies on the earlier list slipped below 51 percent and do not appear this time.

Volatility in the share of business done abroad is particularly high among smaller and medium-sized firms; seven of the thirteen companies no longer on the list had sales of less than $200 million. For the smaller firm, the loss of just one or two major foreign customers can affect the foreign sales component dramatically. The box on page three provides examples of firms whose foreign sales rose or fell substantially between 1978 and 1980. A softening in the world economy clearly affected some of the "losers" in this period, but for others special factors were at play. The slide of Gulf Oil's foreign revenues from 57 percent of total revenues in 1978 to just 41 percent in 1980 was viewed by the company with equanimity. In their joint letter to stockholders in the company's 1980 annual report, Gulf's Chairman and President noted:

"As recent as 1974, more than half of Gulf's net income was earned outside of North America, and of that amount, a major portion was derived from oil production in two countries—Kuwait and Venezuela. Despite the nationalization of those properties in 1975, our earnings since than have doubled—and the source has shifted significantly. Last year 79 percent of Gulf's net income came from North America, with more than two-thirds derived from energy production operations. These are positive trends—the result of a Corporate strategy that emphasizes energy exploration and development activities, particularly in the U.S. and Canada."

Profile of U.S. Multinationals



Note: Data taken from 1977 survey by U.S. Department of Commerce of nonbank operations

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The Importance of Foreign Sales to MNC's, 1980

Rank	Company	Foreign Sales as Percent of Total Sales	Total Sales ($ millions)	Foreign Sales ($ millions)
1.	Belco Petroleum Corp.	*88%	837	741
2.	A. Schulman, Inc.	73%	289	211
3.	Hoover Co.	69%	830	574
4.	Mobil Corp.	69%	63,726	44,039
5.	Lubrizol Corp.	68%	902	613
6.	Texaco Inc.	68%	51,195	35,116
7.	Stanley Home Products	68%	233	159
8.	Parker Pen Co.	67%	723	485
9.	Int'l. Flavors & Fragrances	66%	448	297
10.	CPC International Inc.	66%	4,120	2,719
11.	Bucyrus-Erie Co.	66%	511	338
12.	Exxon Corp.	66%	52,201	34,452
13.	Gillette Co.	65%	2,315	1,500
14.	American Brands, Inc.	65%	6,801	4,435
15.	Proler Int'l.	64%	106	68
16.	R. P. Scherer Corp.	64%	136	88
17.	Colgate-Palmolive	64%	5,130	3,278
18.	Black & Decker Mfg.	61%	1,438	885
19.	Int'l. Telephone & Telegraph	60%	18,529	11,223
20.	Granger Associates	60%	21	13
21.	General Refractories	60%	467	282
22.	Dibrell Bros. Inc.	60%	325	196
23.	Gelman Sciences, Inc.	60%	43	26
24.	Measurex Corp.	60%	122	73
25.	Raychem Corp.	59%	462	274
26.	Dentsply Int'l. Inc.	59%	256	153
27.	Ionics, Inc.	59%	42	25
28.	Instron Corp.	58%	59	34
24.	Ferro Corp.	58%	696	407
30.	Boeing Co.	58%	9,426	5,532
31.	Pfizer Inc.	57%	3,029	1,722
32.	Scott Paper Co.	57%	2,083	1,185
33.	Beker Industries Corp.	57%	295	167
34.	Apeco Corp.	57%	33	19
35.	Caterpillar Tractor Co.	57%	8,597	4,911
36.	Molex Inc.	56%	122	68
37.	Cameron Iron Works	55%	697	383
38.	Steelmet, Inc.	55%	368	202
39.	Richardson-Vicks, Inc.	54%	1,088	585
40.	Camco Inc.	53%	124	66
41.	Barber-Greene Co.	53%	227	122
42.	Merck & Co. Inc.	53%	2,734	1,447
43.	Nashua Corp.	53%	671	358
44.	Int'l. Business Machines	52%	26,213	13,787
45.	Nordson Corp.	52%	149	77
46.	Dow Chemical Co.	52%	10,626	5,493
47.	Dow Corning Corp.	52%	682	358
48.	MTS Systems Corp.	52%	67	35
49.	Thetford Corp.	51%	32	16
50.	Ronson Corp.	51%	131	67

*Percentages are those used by the company. Total sales and foreign sales are rounded and do not match percentages as presented.

Source: Conference Board Key Company Directory.

In other industries as well, difficulties, uncertainties and obstacles to the foreign expansion rates of the past have prompted companies to diversify and invest more in the home market.

Between the appearance of these two lists in *Worldbusiness Perspectives*, the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) began releasing the results of its major 1977 "benchmark" survey of foreign investment by U.S. companies. Some summary results are highlighted in the charts on page one. The survey, which is the first comprehensive view of the activity of U.S. firms abroad since 1966, provides an interesting backdrop to the overseas fortunes of the companies listed here.

There were in 1977 over 3,000 U.S. parent companies holding 10 percent or more interest in over 23,000 affiliates outside the United States. Within this total there were 1,841 U.S. parents in the manufacturing sector, with 15,316 affiliates in other countries. Only 5 percent of the U.S. parents (about 100 companies) had affiliates in more than 20 countries. Majority-owned affiliates abroad accounted for nearly three-fourths of total assets of affiliates of U.S. manufacturers.

The survey vividly confirms the belief of many observers that "MNC's" include a large number of medium- and small-sized companies. In the BEA survey, 912, or nearly half, of the U.S. "MNC" parents had worldwide assets of under $50 million and 285 (15 percent) had $10 million or less in worldwide assets. To ease reporting requirements, the BEA "exempted" affiliates with less than $500,000 sales a year and notes that about 11,000 affiliates in addition to the 23,000 mentioned above fell into this exempt category. Undoubtedly many of those exempt affiliates were linked to smaller U.S. firms. At the other end of the scale, the 62 MNC's with worldwide assets of over $5 billion accounted for just about half of all the worldwide assets in the U.S. manufacturing sector.

Figures such as those reported in the Commerce survey grow out of date rapidly. In 1981, U.S. firms publicly reported establishing 73 new manufacturing subsidiaries abroad in which they hold controlling interest, and the acquisition of control in 40 more foreign companies; in 1980, 136 new subsidiaries and 22 additional acquisitions were reported. Nonetheless, the survey presents an unusually detailed picture of U.S. corporate presence in other economies.

The list of companies presented here provides an interesting insight into the relationship of foreign revenues to foreign investment. In the universe examined by the BEA, 11 percent of the companies had 11 or more affiliates abroad; 25 percent of the companies listed on page two had 11 or more affiliates abroad.

Just as intriguing, however, is the fact that three of these companies had a single foreign subsidiary, and thirteen had three or less. This group of firms has another characteristic worth pondering: 21 of them (40 percent are engaged in joint ventures, either as equal partners or as minority holders with foreign partners, in addition (in most cases) to operating controlled subsidiaries. By contrast, the BEA survey found that, among U.S. firms generally, 83 percent of foreign affiliates were majority owned. Finally, the list is unusually catholic, with virtually every industrial sector represented except textiles and furniture.

The company data presented in this issue are taken from the Conference Board's Key Company Directory, a data base of some 3,000 U.S. manufacturing com-

FOREIGN SALES AS PERCENTAGE OF WORLDWIDE SALES, 1978-1980

GAINERS	*1978*	*1980*	*LOSERS*	*1978*	*1980*
A. Schulman	61	73	Granger	94	60
Mobil Corp.	59	69	Mohawk Data	61	45
American Brands	58	65	Standard Oil-California	59	44
Gillette	58	65	Graham Mfg.	58	37
Black & Decker	57	61	Gulf Oil	57	41
Colgate Palmolive	57	64	NCR	56	42
Stanley Home Products	54	68	J. Ray McDermott	51	20
Parker Pen	53	67	Reece Corp.	48	37
Exxon	50	66	Reynolds Metal	48	23
General Refractories	49	60	Sippicon	44	11
R. P. Scherer	45	64	Products Research & Chemicals	48	16
Molex	42	56	Verbatim	40	30
Boeing	40	58			

panies. The base maintains on a current basis the percentage of each company's sales derived from abroad, the countries in which the firms have controlled manufacturing operations and the types of activity these U.S. companies carry on in other countries other than manufacturing. Data for the base are drawn from public sources and from the companies themselves when such information is normally released to the public. It is designed for use in Conference Board research in the international field and to support in-house research by corporations, schools and other organizations supporting The Conference Board. Special computer runs from the data base such as that presented in this issue are regularly supplied on demand.

James Greene

J. Frank Gaston, Editor
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The Conference Board

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U.S. FOREIGN TRADE IN 1981
A Half-Trillion Dollar Business

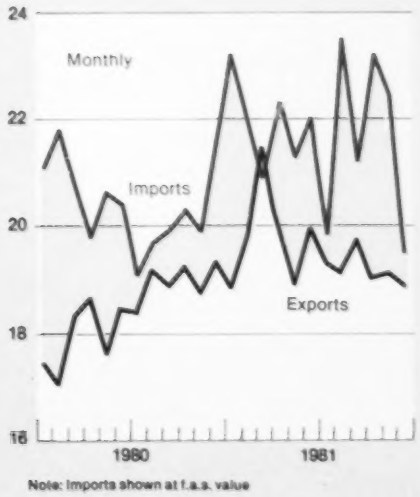
During the 1970's international trade was the fastest growing sector of the U.S. economy. The share of merchandise exports in gross national product (GNP) rose from 4.3 percent in 1970 to 8.5 percent in 1980. Because of the rapid increase in oil prices, the ratio of imports to GNP grew even faster, from 4 percent to 9.5 percent. If one includes services—such as shipping, insurance, tourism and income from foreign direct investment—by 1980 the value of exports and imports combined equaled one-quarter of total U.S. output.

Tallying 1981

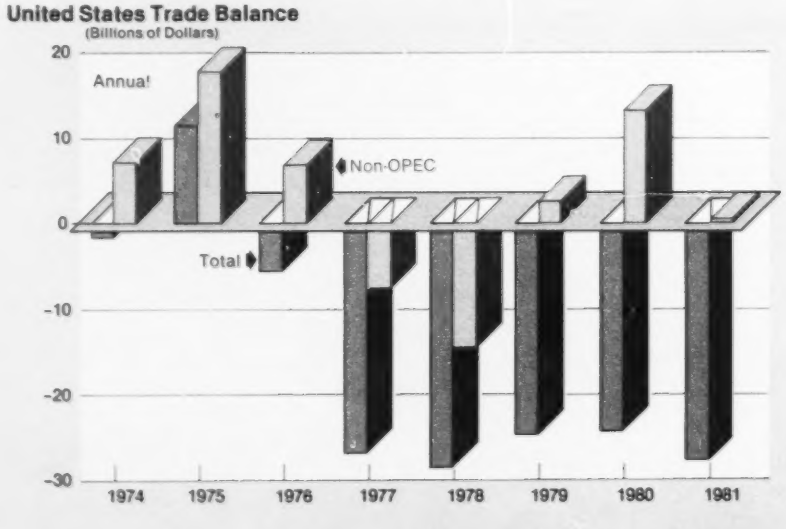
This trend continued in 1981, when merchandise exports rose by 5.9 percent and imports by 6.7 percent—considerably larger gains than those in overall economic activity. Taken together, merchandise exports and imports (at $234 billion and $261 billion, respectively) last year reached almost half a trillion dollars.

But last year's trends also produced the first annual *increase* in the U.S. trade deficit since 1978. Merchandise exports grew more slowly because of sluggishness in the economies of our major trading partners; at the same time, a stronger dollar limited overseas demand for many U.S. products. The U.S. export performance also was affected adversely by record-high financing costs and a cutback in official support of export-financing facilities. However, farm exports (which rose by 4.9 percent) were a star performer for the sixth consecutive year.

The rise in 1981 imports was almost entirely attributable to higher imports of manufactured goods. In this, the largest and most important U.S. trade category, accounting for two-thirds of total exports and over half of imports, the traditional surplus declined from $18.8 billion in 1980 to $5.3 billion last year.



Note: Imports shown at f.a.s. value



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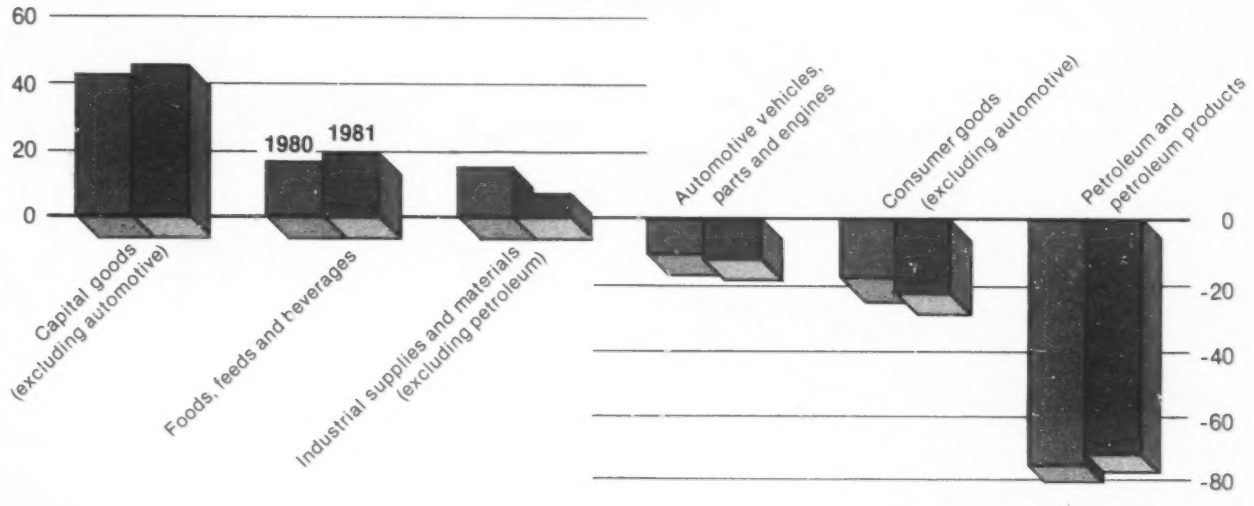
Trade Balance by End-Use Categories

Billions of Dollars



The most noteworthy change on the import side was a drop in petroleum imports, by 2 percent in value—even though the average price was up 12 percent from 1980—and 13 percent in volume terms. In barrels-per-day, 1981 imports amounted to 6.1 million as against 7.0 million in 1980. (Last year's oil import total would have been even lower but for a 200,000 barrels-per-day increase in imports for the Strategic Petroleum Reserve.)

On a geographic basis, three major features can be noted. First, as in previous years, the bulk of U.S. exports went to a relatively small number of markets. Seven countries accounted for half and ten countries for almost three-fifths of all U.S. exports (see table).

Second, these ten and another nine important customers constitute what one analyst has called "successful U.S. export targeting priorities: the major industrial nations, along with a few large oil exporters and several rapidly industrializing developing countries." Imports were even more heavily concentrated, with six suppliers accounting for over half the total.

Ten Leading U.S. Trading Partners, 1981

Exports		*Imports*	
1. Canada	16.9%	1. Canada	17.8%
2. Japan	9.3	2. Japan	14.4
3. Mexico	7.6	3. Saudi Arabia	5.5
4. United Kingdom	5.3	4. Mexico	5.3
5. Germany	4.4	5. United Kingdom	4.9
6. Netherlands	3.7	6. Germany	4.4
7. France	3.1		52.3
	50.3		
		7. Nigeria	3.5
8. Saudi Arabia	3.1	8. Taiwan	3.1
9. Belgium	2.5	9. Indonesia	2.3
10. Venezuela	2.3	10. France	2.3
	58.2%		63.5%

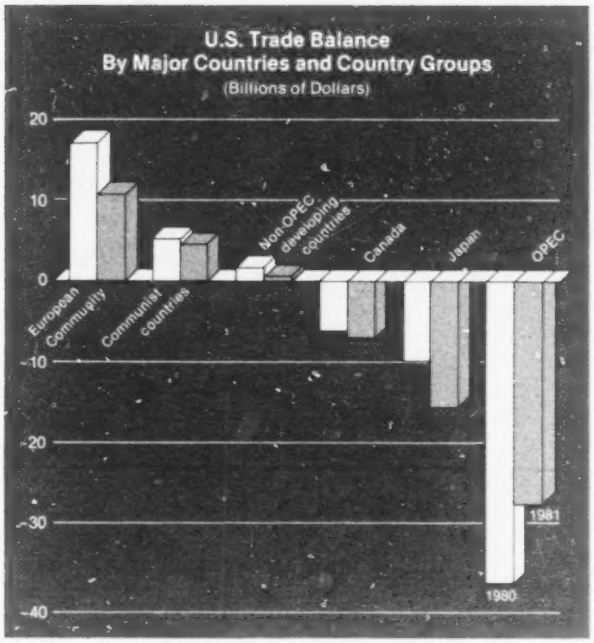
Third, 1981 set a new record for the U.S. trade deficit with Japan. At close to $16 billion, this was the largest deficit ever recorded with a single trading partner and accounted for over half of the global trade deficit. Moreover, whether in surplus or deficit, our 1981 bilateral trade balance deteriorated with every major country or area, except Australia and OPEC.

Uncertain Outlook for 1982

Most observers agree that the U.S. trade deficit is likely to increase further this year. While imports will remain sluggish in the early months, they may well pick up if and when the economy recovers later in the year. At the same time, continued slow growth abroad, especially among our major trading partners, will limit the growth of U.S. exports. Also, competition in third markets from other exporting countries is likely to intensify as the latter seek to bolster the performance of their economies through higher export sales.

Indeed, The Conference Board's *International Economic Scoreboard,* which monitors leading indicators for the seven largest industrial countries, in February noted only "mixed cyclical readings." While signs pointing to an end of recession in France, Japan and the United Kingdom had "become more visible," the situation was seen as "less favorable but by no means bleak" in Germany and Italy. For Canada, the indexes still had not recovered the highs reached in March-April of last year. One reason for guarded optimism was that several European countries had made considerable progress in working off excess inventories.

Another area of uncertainty is OPEC. As a result of falling oil prices and shrinking oil revenues, it is anticipated that several OPEC members will have to scale



down their often ambitious development plans. While not overly large, OPEC still constituted a $21.5 billion market, close to 10 percent of total U.S. exports, last year.

Any assessment of trade prospects for this year must also take account of how the dollar will fare in the exchange markets. Here, three factors come into play. As regards inflation, differentials vis-à-vis other countries are likely to remain moderately in favor of the United States. The current account of the balance of payments, while expected to deteriorate slightly (it was in $6.6 billion surplus last year), does not seem to present a major adverse factor either. Finally, the interest-rate differential with other countries may well have reached its narrowest point and, with the anticipated recovery of the U.S. economy later in the year, may start to widen again.

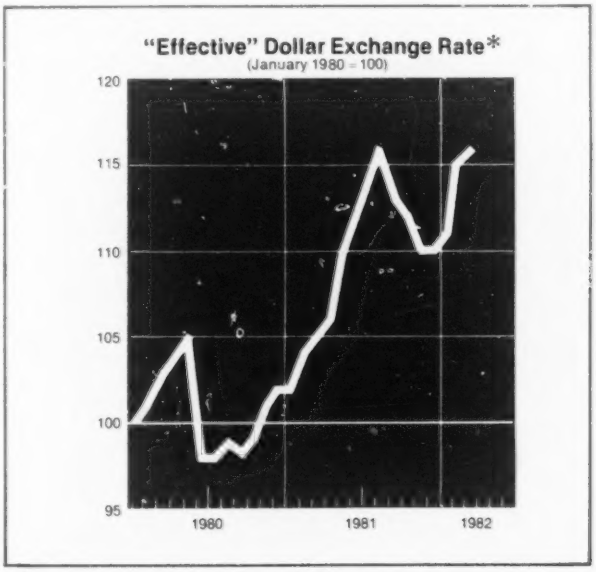
Such a scenario of a moderately strong dollar implies, of course, less price competitiveness for U.S. exports (especially of manufactures) and a competitive edge for imports, compared to the late 1970's. In fact, the rise of the dollar through the Summer of 1981 more than reversed the improvement in the U.S. competitive position that had taken place in the late 1970's when the dollar was declining. The lagged effect of this reversal, the Organization for Economic Cooperation and Development (OECD) pointed out recently, may well have "a large unfavorable impact on the trade balance. . .up until mid-1983."

Overall, world trade growth this year will remain modest, perhaps no more than 2.5 percent in volume. Within this total, export market shares are likely to rise further for such newly industrialized countries as Brazil, Mexico, South Korea, Singapore and Taiwan, with the export mix from the older industrial countries having to adapt to this competition. And continuing protectionist pressures will pose substantial problems for four important sectors—textiles, synthetic fibers, steel and automobiles. U.S. exporters also will have to compete increasingly against the background of government subsidies as the authorities abroad attempt to bolster business activity through export sales.

Trade and Gross National Product

It has often been said—I myself have so stated in this publication—that trade is only one element, albeit a large and important one, in the total international transactions of the United States. As the Council of Economic Advisers put it in its 1982 *Annual Report:* "In most circumstances a trade deficit by itself should not cause concern. A trade deficit is a narrow concept." Indeed, excessive preoccupation with the monthly trade data can easily obscure the fact that the U.S. international accounts—and hence the state of the dollar—depend on more than the mere trade figures. Thus, in 1981 a healthy $41.2 surplus on services (bolstered by $30.6 in receipts of income on U.S. direct investments abroad) more than offset the $27.6 billion deficit on trade.

This does not mean, however, that the emphasis on, and the push for, an expansion of U.S. exports has abated. Recent official efforts in that direction include



*Changes in dollar rate vis-a-vis 15 major currencies, weighted by bilateral manufactures trade in 1976.

President Carter's Export Expansion Program and the current legislative proposal to permit formation of export trading companies. Moreover, some observers have pointed again to an often neglected relationship, that is, the contribution of exports to domestic activity. Thus, in an address at The Conference Board's annual Financial Conference last February, Lawrence A. Fox, Vice President for International Affairs, National Association of Manufacturers, declared:

"There is a tendency in this country to fail to understand the impact that American export expansion can have on domestic growth rates. After all, what difference can $30 or $40 billion additional export sales make in a $3.5 trillion economy? The answer is a significant one. If the U.S. export growth rate of 1980 had been maintained in 1981, it would have meant a full percentage point in the rate of growth in U.S. GNP. In 1982, it could make the difference between an economy enjoying at least a bit of growth, rather than one actually in recession."

True enough. But recently there also has been a careful reexamination of the manner in which the U.S. external accounts—exports and imports of both goods and services—are integrated into calculations of real gross national product (that is, GNP adjusted for inflation). Briefly stated, export values are deflated by export prices and import values by import prices. But since the latter have gone up much more rapidly than the former (largely because of the enormous increase in oil prices), when the data are expressed in constant (i.e., 1972) dollars, import values are reduced by much more than export values and large export surpluses emerge. One result of this anomaly is that, in real terms, net exports of goods and services (or the "trade balance," broadly defined) have been contributing a much larger percentage to GNP than to current-dollar GNP (see box).

This curious state of affairs has raised the broader question of the extent to which a country's real output, and hence its income, are affected when the same physical quantity of exports no longer buys as large a physical quantity of imports as before (or, in technical language, when there is a fall in the so-called terms of trade). To obtain a more accurate picture, it has been suggested that net exports be deflated by some price index, rather than deflating each of the two components separately. Such a process would generate a series showing how a country's "command" over goods and services from domestic production has declined as a result of a deterioration in the terms of trade.

John Hein

Inflation, the Trade Balance, and Real GNP

"Inflation has been playing tricks with the trade balance. The trade balance—net exports of goods and services—is the only component of GNP that is larger in terms of 1972 dollars than in terms of current dollars. In 1980, for example, the net export surplus was $23 billion in current dollars. One might suppose, since the dollar is not worth as much now as it was in 1972, that the surplus would be smaller than $23 billion when expressed in 1972 dollars. It was not. It was $52 billion in 1972 dollars. For the rest of GNP the relation is, of course, just the opposite. The 1980 figure for GNP excluding net exports was $2,602 billion in current dollars, but only $1,481 billion in 1972 dollars. The implicit price deflator for net exports . . .was only 45 (1972 = 100), while the price deflator for the rest of GNP was 182. Many of us have thought that we would never live to see a price index less than 100, but here it is."

Geoffrey H. Moore, "Inflation and Statistics—Again," in William Fellner, Project Director, *Essays in Contemporary Economic Problems*, 1981-1982 Edition, Washington, D.C.: American Enterprise Institute, 1981

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